

**REPORT OF THE AUDIT OF THE
LEE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2002**



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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable L. C. "Bud" Reese, Lee County Judge/Executive
Honorable Harvey Pelfrey, Lee County Sheriff
Members of the Lee County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Lee County, Kentucky, for the year ended December 31, 2002.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the Lee County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
LEE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2002**

**ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LEE COUNTY SHERIFF

For The Year Ended
December 31, 2002

Ross and Company, PLLC, has completed the Lee County Sheriff's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$26 from the prior calendar year, resulting in excess fees of \$3 as of December 31, 2002. Revenues increased by \$15,516 from the prior year and disbursements increased by \$15,542

Report Comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Lacks Adequate Segregation Of Duties
- The Sheriff Should Not Write Checks Payable To Cash

Deposits:

The Sheriff's deposits were not properly insured and collateralized by bank securities or bonds.

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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Lee County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
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Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Lacks Adequate Segregation Of Duties
- The Sheriff Should Not Write Checks Payable To Cash

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross and Company".

Ross and Company, PLLC

Audit fieldwork completed -
September 19, 2003

LEE COUNTY
HARVEY PELFREY, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Federal Grants	\$	12,506
State - Kentucky Law Enforcement Foundation Program Fund		2,299
State Fees For Services:		
Finance and Administration Cabinet	\$	3,080
Cabinet For Human Resources		280
		3,360
Circuit Court Clerk:		
Sheriff Security Service	\$	2,408
Fines and Fees Collected		705
		3,113
Fiscal Court		145
County Clerk - Delinquent Taxes		573
Commission On Taxes Collected		56,432
Fees Collected For Services:		
Auto Inspections	\$	1,400
Accident and Police Reports		815
Serving Papers		9,056
Carrying Concealed Deadly Weapon Permits		1,170
		12,441
Other:		
Bank Share Comm.	\$	1,467
Transporting Mental Patients		2,200
Tax Penalty Fees		11,153
Reimbursements		1,750
		16,570
Interest Earned		535
Borrowed Money:		
State Advancement		24,000
Total Receipts	\$	131,974

The accompanying notes are integral part of this financial statement.

LEE COUNTY
HARVEY PELFREY, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
For The Year Ended December 31, 2002
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	12,506	
KLEFPF		2,299	
Court Bailiff		2,008	\$ 16,813

Materials and Supplies-

Office Materials and Supplies	\$	1,033	
Uniforms		1,844	
Computer/Radio Expense		353	
Mobile Phone		1,261	
Internet Service		86	4,577

Auto Expense-

Gasoline	\$	13,728	
Vehicle Maintenance and Repairs		8,100	21,828

Other Charges-

Training	\$	80	
Advertising		144	
County Collections		1,760	
Postage		498	
Transport Prisoners		395	
Bond		300	
Carrying Concealed Deadly Weapon Permits		775	
Travel Expense		221	
Miscellaneous		1,286	5,459

Debt Service:

State Advancement			24,000
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Total Disbursements

\$ 72,677

Net Receipts

\$ 59,297

Less: Statutory Maximum

\$ 57,812

Training Incentive

1,482 59,294

Excess Fees Due County for 2002

\$ 3

Payments to County Treasurer - March 20, 2002

3

Balance Due at Completion of Audit

\$ 0

The accompanying notes are an integral part of this financial statement.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year.

LEE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2002
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 12, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$664,775 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end or as of November 12, 2002.

	<u>Bank Balance</u>
FDIC insurance	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	96,584
Uncollateralized and uninsured	<u>664,775</u>
Total	<u>\$ 861,359</u>

COMMENTS AND RECOMMENDATIONS

LEE COUNTY
HARVEY PELFREY, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2002

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 12, 2002, the amount of collateral and FDIC insurance together did not equal or exceed the amount on deposit leaving \$664,775 of public funds uninsured and unsecured.

County Sheriff's Response:

None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

County Sheriff's Response:

None.

LEE COUNTY
HARVEY PELFREY, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

The Sheriff Should Not Write Checks Payable To Cash

During our audit, we found one instance where the Sheriff wrote a check payable to cash. We recommend that in order to strengthen internal control, this practice be discontinued.

County Sheriff's Response:

None.

PRIOR YEAR:

The Sheriff Should Prepare Accurate Classifications On Financial Reports And Keep Consistent Financial Records

This comment has been corrected.

The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral

This comment has not been corrected and is repeated in the current year audit.

The Sheriff Should Publish A Final Statement Within 60 Days After Year-End

This comment has been corrected.

The Sheriff Should Not Write Checks Payable To Cash

This comment has not been corrected and is repeated in the current year audit.

Sheriff Should Categorize Payroll Deductions by Category On Computer Software

This comment has been corrected.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Lee County Sheriff for the year ended December 31, 2002, and have issued our report thereon dated September 19, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lee County Sheriff's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lee County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

- Lacks Adequate Segregation Of Duties
- The Sheriff Should Not Write Checks Payable To Cash

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross and Company", written in a cursive style.

Ross and Company, PLLC

Audit fieldwork completed -
September 19, 2003

